



# Secretary of State Audit Report

## Department of Administrative Services: Review of Statewide Facilities Maintenance Processes

### Summary

#### PURPOSE

The purpose of our audit was to determine if the state has a statewide maintenance planning and funding process that effectively uses its current resources to minimize deterioration to its facilities.

#### BACKGROUND

In 1997, the Oregon Legislature established a “statewide planning process” to deal with facilities maintenance issues (ORS 276.227). The “statewide planning process” under ORS 276.227 excludes the Oregon University System. The goals of this process are to provide comparative information on the condition of facilities, evaluate the needs of facilities, establish guidelines and standards for managing and maintaining facilities, and to provide financing and budgeting strategies to allocate resources to facilities needs. These requirements are similar to recommendations made in a 1992 Oregon Audits Division audit, *Facilities Management: Opportunities To Reduce The Long-Term Cost Of Providing Space*.

#### RESULTS IN BRIEF

Although improvements have been made, we found the state has not fully implemented a statewide maintenance planning and funding process.<sup>1</sup> The deterioration of state facilities remains a costly, chronic problem. Deferred maintenance, as reported by the Department of Administrative Services and the Oregon University System, exceeds \$600 million. Without a fully implemented statewide process to identify, prioritize, and help minimize deferred maintenance costs, some high-priority maintenance may not be addressed until a costly and avoidable failure occurs.

The state faces several barriers to fully implementing a statewide maintenance planning and funding process. For example, Department of Administrative Services management told us they would like to promote best practices for facilities maintenance and create more forms and standards for the “statewide planning process,” but lack the resources to perform the work. Also, maintenance funding sources are often inflexible and available only to certain agencies, and under the current budget process funds designated for maintenance can be used for other agency purposes. A fully implemented statewide process would better comply with state law, and should assist in identifying facilities maintenance issues and strategies for overcoming barriers.

#### RECOMMENDATIONS

We recommend the Oregon University System and the Department of Administrative Services collaborate to provide information for the state’s budget process that ensures the Governor and Legislature can compare and prioritize statewide facility needs. We also recommend the Department of Administrative Services dedicate the resources necessary to continue with the implementation of ORS 276.227.

#### AGENCY’S RESPONSE

The Department of Administrative Services and the Oregon University System generally agree with the recommendations.

<sup>1</sup> “Statewide maintenance planning and funding process” and “statewide process” refer to the state’s processes for planning and funding facilities maintenance across all state agencies.

## Background

The state has a portfolio of facilities worth more than \$6 billion according to figures provided by the Department of Administrative Services (department) for fiscal years 2003 and 2004. The Oregon University System (OUS) is the largest holder of facilities, with more than \$3.3 billion in facility holdings.

These facilities require ongoing maintenance and repair activities to realize their anticipated useful lives. Maintenance activities keep facilities, and their components, in efficient operating condition.

Any routine or regular maintenance and repair needs that are unmet become deferred maintenance. Deferring maintenance may cause premature facilities deterioration, and result in the diminished usefulness or shortened life of facilities or facility components. Deferred maintenance also can result in additional cost when repairs are finally made.

Deferred maintenance appears to be a chronic issue that is not being readily resolved. According to information provided by the department and the OUS, deferred maintenance in the 2003-05 biennium totaled approximately \$500 million for OUS<sup>2</sup> and \$124 million for other state agencies.<sup>3</sup>

In 1992, our office issued a report, *Facilities Management: Opportunities To Reduce The Long-Term Cost Of Providing Space*, which examined these issues. This audit determined state-owned facilities are deteriorating, and much of this deterioration is evidenced by backlogs of deferred maintenance.

<sup>2</sup> Includes only Education and General facilities.

<sup>3</sup> Includes adjusted information from the Department of Human Services.

This audit recommended a central entity be established within the state to provide for oversight of the state's facilities, to coordinate and monitor statewide facility planning, and to develop maintenance standards. A major responsibility of this entity would be to assure that the state's policymakers are adequately informed to plan, budget and respond to facilities issues that cross agency lines.

The audit also revealed a need for statewide information on the condition of facilities, particularly information regarding deferred maintenance. This information would be used to effectively target the most critical projects to complete, to set priorities within and among agencies, and to allocate available funds or justify to the Legislature the need for additional funds.

Further, the audit stated a need for long-term statewide plans to eliminate deferred maintenance backlogs and to communicate to the Governor and Legislature facility repair and maintenance needs and their costs. These decision-makers would then have statewide information reflecting the seriousness of the deterioration, and would be in a better position to make funding decisions.

In 1997, the Oregon Legislature enacted legislation (ORS 276.227) defining a "statewide planning process", which would, as part of its function, assist in managing statewide facilities maintenance issues.

This legislation requires the "statewide planning process" do the following:

- Provide comparative information on the condition of the state's facilities;
- Evaluate the needs of the state's facilities;
- Establish guidelines and standards for acquiring,

managing, and maintaining state facilities; and

- Provide financing and budgeting strategies to allocate resources to facilities needs.

The department was also directed to create the Capital Projects Advisory Board (CPAB) that would operate as part of the "statewide planning process", and aid the process in its consideration of facility maintenance issues. The legislation allowed the department's Director to seek recommendations from the Board regarding the needs of existing facilities, funding strategies, and long-term facility goals. It also directed the department, with assistance from the Board, to provide recommendations and information to the Governor and Legislative Assembly on facilities management issues.

This legislation recognized and addressed many of the same statewide process needs referred to in the 1992 audit.

## Audit Results

As in 1992, we found the state could do a better job of maximizing its resources and improving statewide maintenance planning. Improvements have been made to the statewide maintenance planning and funding process since the 1992 audit and the subsequent passage of ORS 276.227. However, there are still large dollar amounts of deferred maintenance, and a statewide facilities maintenance planning process that has not been fully implemented.

Although we found one agency appears to have completely eliminated its deferred maintenance backlog, other agencies are still experiencing significant deferred maintenance problems. This disparity among agencies, and the serious nature of those unmet deferred maintenance needs, suggests that statewide

implementation has not yet been achieved.

A statewide maintenance planning and funding process would assist decision makers in identifying and funding the highest priority maintenance projects, thus minimizing the additional cost from deferring maintenance. The better the state is at identifying and planning for the repair of maintenance projects of greater strategic importance or cost benefit, the better return it will receive on scarce maintenance resources.

### **The State Lacks a Fully Implemented Statewide Process**

We found the state has yet to fully implement a statewide maintenance planning and funding process across all agencies.

Agencies report their maintenance issues and needs separately, without benefit of an integrated process that considers the collective maintenance needs of the state as a whole.

Further, although ORS 276.227 does not apply to OUS, better implementation of this statute would help towards fully implementing a statewide process. Our audit results noted improvements that could be made in areas outlined in ORS 276.227 such as the:

- Availability and use of comparative facility condition information;
- Evaluation of facility needs;
- Standards and guidelines that exist related to facilities maintenance;
- Provision for maintenance financing and budgeting strategies; and
- Use of the CPAB.

### **State Maintenance Issues and Needs are Not Assessed Collectively**

We found the state's facility maintenance conditions are reported individually by agency, without benefit of a collective statewide assessment of those conditions.

The state's processes for reporting and analyzing maintenance issues and needs, principally occurring in the budget process, focus on agency-by-agency assessments of maintenance expenses. For instance, the department's budget and management analysts play a major role in the process that incorporates agency submitted budgets into the Governor's overall budget. These analysts are assigned individual agencies. They explained that under the current process contact between analysts on a multi-agency issue such as facilities maintenance funding is limited.

### **The "Statewide Planning Process" Lacks Comparative Information and Evaluation of Statewide Facilities Needs**

We found that the facilities maintenance information accumulated by the "statewide planning process" was not readily comparable from one agency to another. For example, the methods used to assess the condition of facilities can vary from one agency to another. The department conducts building assessments internally, while the Department of Corrections (DOC) has used consultants. The extent of, or degree to which, these assessments identify maintenance needs also can vary.

Further, the department's "statewide planning process" managers told us that the information provided them by the agencies, listing deferred maintenance projects and

associated costs, is not evaluated or used in any statewide prioritization process.

### **Existing Standards and Guidelines Do Not Ensure Comparable and Useful Information**

Standards and guidelines for comparing and evaluating the condition of agency facilities and for collecting and reporting maintenance information could be improved.

We found the "statewide planning process" does not have adequate standards and guidelines in place for use in comparing and evaluating the condition of agency facilities. The department also does not have sufficient standards and guidelines to ensure the information submitted, which could be used in agency facility comparisons and evaluations, is accurate, consistent, and appropriate.

For example, industry guidelines use current replacement values as a basis for calculating building condition and to estimate the funds needed for facility maintenance.<sup>4</sup> The cornerstone for performing such an analysis rests on accurate current replacement values. During our audit we found that some current replacement values submitted by agencies to the department's Facilities Division and to the department's Risk Management Division did not match. Since the department lacks standards or guidelines directing a review of agency information for reasonableness, and a requirement to research variances, there remains a question as to which replacement value, if either, is accurate and usable.

Further, the DOC uses external consultants to help assess the

<sup>4</sup> Replacement value is the amount in current dollars it would cost to replicate the facilities.

condition of their facilities, while other agencies such as the department and the Oregon Military Department (OMD) assess these conditions internally. Standards and guidelines have not been developed that would facilitate a comparison and evaluation of agencies with these differing circumstances. Without a means of ensuring comparable information, a complete, accurate understanding of statewide facilities conditions across agencies can be difficult.

### **“Statewide Planning Process” Lacks Financing and Budgeting Strategies to Support Project Prioritization**

Our audit found the “statewide planning process” lacked financing and budgeting strategies that can support prioritization of maintenance projects between agencies. Different funding sources available to agencies are among the significant barriers in the ability to allocate funds to projects with the highest needs. Rather than finding financing and budgeting strategies in place or being developed to address these challenges, we found maintenance planning was driven primarily by each agency’s anticipated access to funding.

For example, general fund agencies often receive maintenance funding equal to the funding received in the prior biennium, adjusted for inflation, irrespective of need. In contrast, agencies with more generous maintenance funding sources may receive the funds needed to meet maintenance requirements. As a result, agencies such as the DOC and OMD reported relatively high levels of deferred maintenance, while the department reported no deferred maintenance for buildings included in the Uniform Rent Program.<sup>5</sup>

<sup>5</sup> The uniform rent program combines the costs to maintain a group of buildings, and charges those costs to

An example of how funding source can influence decision-making can be found in the potential transfer of ownership of the Transportation Building from the Oregon Department of Transportation (ODOT) to the department. Under ODOT ownership, with ODOT funding sources, the Transportation building has significant deferred maintenance issues. In theory, under the Uniform Rent Program available to department owned buildings, deferred maintenance could be addressed. According to the department, the ability to address the building’s deferred maintenance needs with a change in maintenance funding sources is a major reason for the proposed transfer of ownership to the department.

### **Limited Utilization of CPAB in Maintenance Plan Review**

Although it is clear that ORS 276.227 contemplated a role for the CPAB in maintenance plan review, we found the board provided limited service in this area. For example, ORS 276.227 (3)(b) allows the director of the department to seek recommendations from the board regarding the needs of existing facilities. During our audit, however, we did not find evidence that recommendations specific to prioritizing and funding maintenance needs were solicited from the CPAB.

Further, in talking with a CPAB member, we were told that maintenance plan review is not a priority for the board. Although the CPAB reviews agency maintenance plans, the board’s primary focus is on new construction.

tenants based on the square footage occupied.

### **Fully Implemented Statewide Process Should Reduce Costs**

A fully-implemented statewide maintenance planning and funding process should reduce costs. Without a fully implemented process, the state is less capable of identifying and prioritizing maintenance needs across agencies. This situation creates the potential for a continual pattern of paying more for reactive, expensive maintenance.

According to industry literature, one common cause for additional costs is that facility components and systems not adequately maintained sometimes fail and result in costly, emergency repairs. Such repairs may result in costs several times greater than the costs of performing preventative maintenance, and have the effect of raising the total cost of a deferred maintenance backlog.

For example, the OMD reported two separate roof projects deferred past the time they were scheduled for repair or replacement. In both cases, water damage resulted from the poor condition of the roofs. In one instance, more than \$34,000 in additional costs was incurred by the state from the water damage. In the other instance, a roof repair that should have cost less than \$140,000, if done timely, had an additional cost of more than \$12,000.

The OUS reported that deferring the renewal of the heating and cooling system at Straub Hall on the University of Oregon campus routinely results in additional, ongoing repair costs to the state. The deteriorated system has caused water damage to ceilings, walls, carpets, and other contents of the building. Attempts to improve the efficiency of the system often results in more system failures. We noted that from February 2002 to November 2004 documentation for

more than \$7,000 in additional repair costs caused by this system. Further, building users have resorted to fans and heaters to compensate for the ineffective system, which increases the use of electricity and adds to the cost.

Without a fully implemented statewide process, the state does not have a systematic method of identifying, evaluating and prioritizing high-risk deferred maintenance projects across agencies. This may result in situations where, statewide, some higher risk deferred maintenance projects at one agency may not be funded in favor of lower risk projects at another agency.

Some of these problems that potentially could be identified, prioritized and funded as the state's most critical deferred maintenance needs may end up as costly, reactive repairs.

### **Barriers to Fully Implementing a Statewide Process**

A statewide maintenance planning and funding process has several barriers that hinder full implementation.

One barrier may be that the state typically views and assesses its maintenance needs from the individual agency level. The perspective of looking across agencies at statewide maintenance concerns, such as deferred maintenance, has not evolved. The lack of such a perspective could make it difficult to create a process capable of taking more effective action on maintenance issues that affect multiple agencies.

Further, department officials told us they would like to promote best practices for facilities maintenance and create more forms and standards for the "statewide planning process," but lack the resources to perform the work. Department management also said

they are unable to review agency maintenance information for accuracy and comparability with their current staffing.

Department officials said of the two department staff performing the duties for this process, only one was dedicated to the "statewide planning process" fulltime. Further, department Facilities Division management has other duties, such as the management of department owned buildings, in addition to responsibility for the "statewide planning process".

### **Barriers to Funding of Maintenance**

While a statewide perspective would assist in making the best use of limited general fund revenues, many of the funding sources for maintenance appear inflexible and are only available to certain agencies under certain conditions.

For example, federal funds may have requirements that can limit their use on maintenance projects. The OMD reported that they have been unable to leverage federal maintenance funds because they lacked state matching funds.

In addition to funding source challenges, under the current budget process funds designated for maintenance can be used for other agency purposes. Facility maintenance issues may be viewed as problems that can be postponed, while other issues, such as program delivery, may be viewed as having immediate funding needs. Thus, an agency may be allowed to use funds originally designated as maintenance to fund other areas of the agency's operation.

However, a pattern of sacrificing maintenance for short-term program delivery concerns can, in time, affect the overall quality of the program, since program delivery and the condition of an agency's facilities are often inter-related. For example, prison

facilities are an integral part of program delivery for agencies such as the DOC, as are classroom facilities for the OUS.

### **Recommendations**

**We recommend** the OUS and the department collaborate to provide information for the state's budget process that ensures the Governor and Legislature can compare and prioritize statewide facility needs.

**We also recommend** the department dedicate the resources necessary to continue with the implementation of ORS 276.227, including the following activities:

- Gathering and ensuring accurate, complete, and standardized maintenance information.
- Identifying and making recommendations to the Governor and Legislature for the elimination, where possible, of barriers that limit the use of maintenance funding sources by particular agencies.
- Identifying and providing information on financing and budgeting strategies to meet facilities maintenance needs to the Governor and Legislature.
- Tracking and reporting historical trends and patterns in agencies' use of funds designated for facilities maintenance, and levels of deferred maintenance.

#### **Agency's Response:**

*The department and the OUS generally agree with the recommendations. The responses for the department, the OUS, and the OMD begin on page 7. The DOC chose not to respond.*

### **Objectives, Scope and Methodology**

The objective of our audit was to determine if the state's planning and funding process effectively

minimizes deterioration to facilities using its current resources.

The agencies included in our audit were the Department of Corrections, the Oregon Military Department, the Department of Administrative Services, and the Oregon University System. These agencies hold facilities portfolios valued at more than \$4.8 billion, and represent more than 78 percent of the state's total facilities holdings.

This audit follows our 1992 audit, *Facilities Management: Opportunities To Reduce The Long-Term Cost Of Providing Space*, and legislation, primarily ORS 276.227, concerning statewide facilities maintenance processes.

Although included in the 1992 audit, the Department of Human Services (DHS) was not included in this audit. Because the facility holdings of the DHS have dropped significantly since the original audit, we felt that incorporating the OMD, with its larger numbers of facilities, would provide a better representation of facilities conditions in Oregon.

We conducted our fieldwork from January to June 2005.

To accomplish our objective we:

- Reviewed pertinent laws, state administrative rules and agency policies, procedures, and other documentation related to our audit objective.
- Interviewed agency personnel and other individuals deemed necessary.
- Reaffirmed through testimonial and documentary evidence from the agencies and other maintenance experts the existence of deteriorated conditions at state facilities.
- Compared the testimonial and documentary evidence we gathered from the agencies to Oregon Revised Statute

276.227 and similar 1992 audit recommendations to determine if, and where, opportunities for further improvement of the statewide maintenance planning and funding process existed.

We did not rely on quantitative evidence for most of our conclusions. Quantitative information was not universally available for all agencies in all data categories. Further, although we noted no problems concerning the data reliability of agency information systems, we did find that the data was not readily comparable between agencies because of subjective interpretations of definitions and differences in the collection of facilities maintenance data.

We conducted this audit in accordance with generally accepted government auditing standards.

## Agency Responses

### Department of Administrative Services

We generally agree with the recommendations you make in your report. The Department does have a responsibility to ensure facilities owned by the state are maintained in good working order. In addition, the Department is responsible for establishing a system for identifying and prioritizing facility maintenance needs statewide as directed in ORS 276.227(1), (2) and (4). We implemented a system for this purpose; however, there is room for improvements that would provide greater consistency in the information reported to the Department.

The Department acknowledges and agrees that it should continue to gather better and more reliable data. Current data is not always consistent and there is variability regarding information on deferred maintenance. Improving definitions, more discussions with agencies, and a more detailed review of the data submitted should improve available information.

While the Department can expand some areas of coordination, the role identified in statute reserves the management of state facilities to the individual agencies. The funding for maintenance goes directly to state agency's budgets, not the Department's budget, and those funds may be used for other purposes. At the same time, the Department welcomes the opportunity, and will continue to work with agencies regarding financing and budgeting strategies. Through better integrated efforts between the Facilities Division and Budget and Management Division, we can provide better information and options to agencies about financing and budgeting strategies. The Budget and Management analysts can also ensure agencies follow-up on recommendations from the Board and address deferred maintenance needs during the budget process. However, improved coordination and better data will help identify the funding problems.

Since the time that the audit process started, the Department has continued to work on improving practices and coordination amongst agencies. Periodic meetings of the Central Facilities Planning Committee, an agency coordination group, were resumed in December. DAS and OUS are coordinating activities around energy usage and sustainability. Additionally, Facilities, Risk Management, and OUS are working toward a consistent method of updating building values.

Facilities staff recently conducted a training session for new Budget and Management analysts to help familiarize them with some of the capital project review processes and a summary report of the "state of facilities" is being prepared. The Department intends to continue these and other activities toward incremental improvements in this area.

### Oregon University System

The draft report did reiterate the 1992 audit conclusion of addressing the deferred maintenance problem by implementing a statewide planning process, as directed by ORS 276.227. Although OUS is exempt from ORS 276.227, we have initiated our own systemwide maintenance planning process, as outlined within the statute:

- Gathered accurate and complete maintenance information, based on a standard methodology.
- Made recommendations to the Governor and Legislature about funding barriers for deferred maintenance.
- Jointly developed a new funding model which will provide new sources of funds to address our list of prioritized deferred maintenance and seismic needs.

I appreciate your recommendation that the state needs to address the condition of its critical facilities. OUS has been a leader in this regard and has invested a great deal of time and effort in assessing and prioritizing campus and system needs in ways that support our academic mission. This led to a significant state investment in OUS facilities repair and renovation by the Legislature and the Governor in 2005. Having to change our data and assessment model to conform to a statewide standard could adversely impact our plans to build on that investment and might stall the momentum we have.

We would, however, welcome the opportunity to share our "best practices" with other agencies that may want to adapt our deferred maintenance and seismic assessment models.

## **Oregon Military Department**

We think the audit is on target and should provide needed visibility to the statewide issue of deferred and unfunded building maintenance. The following paragraph is Oregon Military's response to the audit.

In general, the Oregon Military Department (OMD) agrees with the recommendations made in the audit report. In particular, we agree with the need for standardized maintenance information to facilitate agency to agency comparability. Until such standards are established, deferred and unfunded maintenance requirements are prevented from receiving equal consideration and prioritization during budget development. Although the audit recommendations do not specifically address OMD, we plan to implement them by continuing to maintain accurate and complete deferred maintenance information and by requesting funding from the Legislature to address deferred maintenance needs.



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*The courtesies and cooperation extended by the officials and staff of the Department of Administrative Services, the Oregon University System, the Department of Corrections, and the Oregon Military Department were commendable and much appreciated.*

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